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# Mid-term Evaluation of EU/ACP Microfinance Framework Programme

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Final report

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## List of Acronyms

ADA:	Appui au Développement Autonome
AIDCO:	Office for Cooperation (Europe Aid)
AMFIU:	Association of Microfinance Institutions of Uganda
AFD:	Agence Française de Développement
DFID:	UK Department for International Development
DG DEV:	Directorate General for Development (DG Dev)
EDF:	European Development Fund
EIB:	European Investment Bank
EU/ACP:	European Union/African, Caribbean, Pacific States
FSA:	Financial Service Association
GRI:	Global Reporting Index
GTZ:	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, (international cooperation enterprise for sustainable development)
ILO:	International Labour Organisation
IADB:	Inter-American Development Bank
KDA:	K-Rep Development Agency
KFW:	Kreditanstalt für Wiederaufbau
LFS:	LFS Financial Systems (German consulting and management company)
MAIN:	Microfinance African Institutions Network
MIFED:	Microfinance et développement
MIX:	Microfinance Information Exchange
MFI:	MicroFinance Institution
NGO:	Non-Governmental Organisation
OI:	Opportunity International
PMU:	Project Management Unit
SIDI:	Solidarité Internationale pour le Développement et l'Investissement
TA:	Technical Assistance
UNCDF:	United Nations Capital Development Fund
UNDP:	United Nations Development Programme

# Glossary of Microfinance-related terms

## *Active clients:*

The number of clients with loans outstanding on any given date. An institution's official statistics on active clients are usually recorded as the number of clients with loans outstanding on the date its financial statements are filed.

## *Credit bureau:*

An agency that contains information on the credit history of consumers so that creditors can make decisions about granting of loans.

## *Credit rating:*

Usually used to determine a bank or financial institution's credit risk, a credit rating is an evaluation of an individual's or company's ability to repay obligations or its likelihood of not defaulting.

## *Credit scoring:*

Measures the risk associated with each credit applicant/microborrower. In a microfinance context, the credit scoring method is modified to take into account a microentrepreneur's experience, character and capacity to repay. The final credit score is an overall measure of the creditworthiness of the credit applicant.

## *Financial self-sufficiency:*

Total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. In a microfinance context, an institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses and funds.

## *Governance:*

Process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects its assets.

## *Greenfielding:*

Greenfield or greenfielding refers to starting a new microfinance organisation.

## *Performance standards:*

Normative levels set for specific performance measurements, like portfolio quality or leverage. In the field of microfinance, there are several entities and projects attempting to set universal performance standards for MFIs.

*Portfolio at risk (PAR):*

Measurement of the total outstanding balance of loans past due—not to late payments or payments not yet due—divided by the active portfolio.

*Regulation and supervision:*

The creation and enforcement of a set of rules and standards for financial institutions, including MFIs. These rules are usually set by a country's central bank or superintendency of banks, or by other banking agencies.

*Transparency:*

A transparent microfinance organisation gathers and reports accurate financial information on its own, to be verified and analyzed by external parties. These external authorities ensure that the MFI's performance complies with appropriate industry standards.

## Executive summary

This mid-term evaluation report—jointly commissioned by the African, Caribbean and Pacific (ACP) countries Secretariat, Directorate General Development (DG Dev) and Europe Aid Office for Cooperation (AIDCO)—assesses the European Union (EU)/ACP Microfinance Programme’s progress in the last three years, provides recommendations for its remaining two years, and discusses options and scope for similar future programme(s).

The mid-term evaluation that took place April-May 2008 concludes that the EU/ACP Microfinance Programme has successfully achieved its objective improving the overall effectiveness of microfinance operations in ACP countries through institutional strengthening, microfinance rating and increased efficiency/transparency. **At the time of the review, many of the Programme’s five-year targets have already been achieved.** Those targets that are yet to be reached are on track to be achieved by the end of the Programme. A successor programme would be both useful and desirable to further the general aim of improving the effectiveness of microfinance actors in ACP countries.

### Programme Overview:

The flagship Programme, launched in January 2005, exemplifies the EC and ACP new commitment to support microfinance projects with a focus on capacity building. The five-year, €15 million Programme, financed by the 9<sup>th</sup> European Development Fund (EDF), seeks to improve the overall effectiveness of microfinance operations in ACP countries by:

- Supporting the development of sustainable microfinance institutions (MFIs),
- Stimulating improvements in performance by promoting MFI ratings and strengthening MFI information systems, and
- Enhancing transparency and efficiency in ACP microfinance markets.

#### *Key Contributors to the Programme’s Success*

Certain elements at the Programme’s strategic level, in its design and management, as well as in its monitoring and quality controls are key to the Programme’s success thus far.

#### At the Strategic Level

- The high level of political commitment from the EC (with Cabinet involvement, among others) and from the ACP Secretariat;
- The Programme’s alignment of its objectives to draw from EC strengths using its grant resources for capacity building and no longer funding credit lines;

- The Programme’s tight coordination with global activities and bodies creating momentum and enabling better sharing and learning;
- The Programme’s focus on capacity building, a new area for the EC, addressing the high demand in the ACP region

#### At the Design Level

- The Programme’s breadth—covering many key issues, regional initiatives, and a variety of actors —enhances the EC’s comparative advantage as a donor, and led to a wealth of experiences;
- The richness in scope of the Programme - mix of demand- and supply-driven components enabled grantees—in cooperation with donors and other actors—to conceive and bring forward innovative, cost-effective ideas;
- The criteria favouring relatively strong institutions as grantees;
- The involvement of CGAP with the EC and ACP in designing the Programme to include an expert coordinator focused on results during implementation;

#### For Monitoring and Quality Control

- The use of performance-based contracts resulted in clear and fair monitoring of implementation, facilitated greater involvement from the EC Delegations, and enabled better communication between HQ and the Delegations;
- The effective supervision and management of the Programme Coordinator, AIDCO’s support on procedural issues along with CGAP’s ongoing input;
- The use of clear, useful and simple quarterly and annual reporting formats.

## Summary of Progress

The Programme has been highly successful. It has met or exceeded expectations, long before its termination. The table summarizes its achievements compared to targets.

Table 1 Summary of Programme progress

Component	Targets	Progress
<p><b>Strengthen capacities of microfinance actors in ACP countries</b></p> <p>The 11 grants selected from the Call for Proposals (CfP) address (one or more of) the following objectives:</p> <ol style="list-style-type: none"> <li>1. Diversify financial products and services</li> <li>2. Apply new technologies</li> <li>3. Expand to rural and</li> </ol>	<p>Demand-driven component:</p> <ul style="list-style-type: none"> <li>• 40 MFIs strengthened</li> <li>• 2 start ups</li> <li>• 20 training activities</li> <li>• 3 interventions complementary with the Cotonou Investment Facility</li> </ul>	<p><b>Achieved</b> by year 3:</p> <ul style="list-style-type: none"> <li>• Over 40 MFIs</li> <li>• 2 starts-ups</li> <li>• Over 20 training activities and 536 people trained</li> <li>• 3 complementary interventions</li> <li>• 2 networks supported (AMFIU, MAIN).</li> <li>• 53% increase in outreach to more than 480,000 clients (supported directly and indirectly)</li> </ul> <p>Individual grants as of March 2008:</p> <ul style="list-style-type: none"> <li>• 5 projects exceeded minimum performance thresholds</li> <li>• 2 more were on track to achieving</li> </ul>

Component	Targets	Progress
<p>remote areas</p> <p>4. Enhance transparency</p> <p>5. Create microfinance banks</p>		<p>them</p> <ul style="list-style-type: none"> <li>4 face some delays in achieving targets for largely exogenous reasons or over-estimation</li> </ul>
<p><b>Ad hoc facility:</b> provision of technical assistance on short term for the supply-driven capacity building component (for areas not well-covered by the CfP)</p>	<p>Supply-driven component:</p> <ul style="list-style-type: none"> <li>Technical assistance and training made available</li> </ul>	<p><b>On-track</b> by year 3:</p> <ul style="list-style-type: none"> <li>10 ACP policy makers trained in 2007</li> <li>21 Scholarships awarded in 2008</li> <li>Central African Policy Forum co-organised</li> <li>Contracts for Carib-Cap and Pacific Financial Inclusion Programme signed</li> <li>Design of regional capacity building projects for Caribbean with MIF/IADB and CDB and Pacific with UNDP/UNCDF</li> </ul>
<p><b>Support the supply and use of rating in microfinance in ACP countries</b></p> <ul style="list-style-type: none"> <li>Co-finance ratings through multi-donor Rating Fund</li> <li>Raise awareness in field of microfinance ratings</li> </ul>	<p>Rating fund:</p> <ul style="list-style-type: none"> <li>100 ratings</li> <li>2 awareness-raising workshops per year</li> </ul>	<p><b>Achieved/on track</b> by year 3:</p> <ul style="list-style-type: none"> <li>105 ratings approved</li> <li>7 workshops by 2007</li> <li>Accessible Web site with all co-financed ratings disclosed</li> <li>Positive evaluation of 2007 Rating Fund</li> </ul>
<p><i>Not foreseen in original logical framework:</i></p> <p>Support global Information Systems (IS) Program</p>	<p>IS Fund (Jan. 2008-June 2009)</p> <ul style="list-style-type: none"> <li>30 software reviews</li> <li>8 regional reviews</li> <li>50 IS fund assignments.</li> </ul>	<p><b>On-track</b> as of May 2008:</p> <ul style="list-style-type: none"> <li>2 applications from ACP</li> <li>3 consultants for ACP</li> <li>5 new IS products added</li> </ul>
<p><b>Support transparency and efficiency</b> by contributing to the implementation of CGAP's work program 2003-2008.</p>	<p>Indicators in the logical framework for the 5 year period:</p> <ul style="list-style-type: none"> <li>5 new models of financial services for the poor piloted in ACP</li> <li>5 methodologies for reaching underserved clients documented.</li> <li>2 ACP MFIs financed.</li> <li>Reporting to the MIX and adopting MIX standards on</li> </ul>	<p><b>Achieved</b> by year 3</p> <ul style="list-style-type: none"> <li>3 New models of financial services for poor piloted in ACP (cell phone and money transfers, agricultural lending)</li> <li>Methodologies for reaching under-served client groups documented (graduation)</li> <li>9 ACP MFIs financed (2RAS, 5 PPIC, 2 Technology))</li> <li>Reporting to the MIX and adopting MIX standards on <ul style="list-style-type: none"> <li>Financial reporting: 242 ACP MFIs, 945 globally;</li> <li>Social performance: 8 ACP MFIs,</li> </ul> </li> </ul>

Component	Targets	Progress
	<ul style="list-style-type: none"> <li>○ Financial reporting: 40 ACP MFIs, 600 globally;</li> <li>○ Depth poverty outreach: 15 ACP MFIs, 150 globally</li> <li>○ Social performance: 10 ACP MFIs. 100 globally</li> <li>○ 50 investors reporting to the MIX</li> <li>● 10 policy, regulatory and supervisory frameworks reviewed</li> </ul>	<ul style="list-style-type: none"> <li>○ 34 globally</li> <li>○ 100 investors reporting to the MIX</li> <li>● 11 countries and 2 regional Central Banks assisted with reviews of policy, regulatory and supervisory frameworks, and 16 national strategies</li> </ul>

## Current Programme Recommendations

The Programme's achievements at this mid-term evaluation are impressive. In its remaining two years, the Programme has three challenges to address:

- It needs to ensure that the built-in mechanisms for its various components are sufficient for those grantees that are on track to attain financial or institutional sustainability after Programme termination;
- Though the Programme work plan was thorough and well designed, grantees did not always determine tools for measuring impact from the very beginning;
- Disseminating all the valuable lessons learned.

To address these challenges and build on the Programme's success:

- The Programme can support (on an as-needed basis) grantees that are continuing their financial or institutional sustainability work.
- Proxy indicators for measuring impact (e.g., increased access to bank accounts as a result of the work of a Greenfield, or percentage of clientele below the country poverty line) were identified and are now being collected. Impact/Social Performance Management tools are available and can be employed for this work.
- A learning event has already been planned to share lessons learned. Dissemination should go beyond this learning event, with more systematic exchange instruments among grantees, and with other Programme components.
  - Workshops, Web pages, and working meetings would make it possible to share lessons learned more widely with other programmes and regions.
  - A communications strategy could be set in place with specific outputs, which would also help prepare the Programme as a demonstration tool within the EC.

## Future Programme Recommendations

The consultant, along with most respondents, believes a successor programme is both warranted and important. It would be both useful and desirable to further the general aim of improved effectiveness of microfinance actors, specifically to attempt to meet the high demand for capacity building in ACP countries.

In addition, the flagship nature of the current programme implies that success would lead to a subsequent roll-out of some of its components. It is likely that, if this Programme were not followed by another, it would be perceived as a failure, thereby leading to in-house confusion on microfinance best practices and the role of the EU.

#### *Areas of Consideration for Future Programmes*

Future programmes should (within the same timeframe):

- Be larger in scope to address the capacity building needs of ACP countries;
- Have an implicit linkage to the EIB. This has proven useful and should be further developed, with a broader range of financial instruments made available to recipient institutions to provide better access to finance for capacity building;
- Foster collaboration with other bilateral or multilateral donors and investors—especially with partners who have complementary skill sets and whose microfinance focus in ACP is in line with those of the Programme. The EC and ACP can build on collaboration established under the current Programme with the ILO, UNCDF and MIF/IADB. They can also approach other funders, prioritizing the bilateral European funders (e.g., DFID, GTZ, AFD, UNDP and KfW);
- Significantly advance the work done to-date and build on some of the activities, e.g. support the global information systems fund and a revised, tailored rating fund or the capacity building initiatives in the Caribbean and Pacific.

During the course of the evaluation, several other important areas for potential work were revealed. They will need to be researched further to determine their applicability to the EC. Areas for consideration include:

- Developing the local training capacity for loan officers and middle management;
- Supporting established professional Greenfield institutions in underwriting their expansion to rural areas;
- Building capacity of regulatory bodies to provide training and develop training curriculum;
- Supporting projects strengthening the market infrastructure such as co-funding donor initiatives with credit bureaus or assisting countries in their roll-out of national ID systems;
- Investing in consumer protection measures;
- Supporting development of microfinance post/recurring conflict zones (including training courses and workshops to share lessons learned);
- Assist research on depositor profiling to help building domestic financial systems.

A Call for Proposals in a successor programme could expand on some of these ideas. Those not addressed could be organized in collaboration with other donors. (The EC could take the lead of some activities and provide only support on others to balance its time involvement and optimize its strengths.)

#### *The Human Resources Commitment for Future Programmes*

For further institutionalization of microfinance, the consultant recommends hiring two microfinance experts. At least one full time EC staff member should exclusively supervise such microfinance programmes and other EC funded microfinance interventions (in the form of a Help Desk).

As for programme management, several options can be considered, such as a permanent AIDCO staff member, regional officers (in each of the ACP regions) or working through a Programme Management Unit (PMU). The consultant recommends the first option as both more efficient and realistic. In any case, duly consideration of the need for staff with experience, both for management and for supervision, is critical to future long-term success. Finally, the ACP Secretariat is encouraged to identify a person who could spend approximately one third of his/her time in liaising with AIDCO on the programme and organizing a very structured dissemination process to its constituents.



# 1 Evaluation Overview

This mid-term evaluation report—jointly commissioned by the African, Caribbean and Pacific (ACP) countries Secretariat, Directorate General of Development (DG Dev) and Europe Aid Office for Cooperation (AIDCO)—assesses the European Union (EU)/ACP Microfinance Programme’s progress in the last three years, provides recommendations for its remaining two years, and discusses options and scope for similar future programme(s).

After first providing essential background information about the Programme (summarizing its various components, budgets, goals and achievements), the review’s findings of the Programme’s efficiency, effectiveness and relevance are then discussed in terms of the quality of the Programme design, and its management, monitoring and implementation. During the course of the review, several areas for improvement or continued diligence were identified and recommendations for the remainder of the Programme are here provided. Finally, the evaluation concludes with a discussion of options and recommendations for a future programme.

## 1.1 Mid-term Evaluation Approach and Methodology

The Programme mid-term review took place during the period April 9- May 23, 2008. The consultant personally undertook the following approach:

- Secondary research was conducted to form a basis of understanding about the Programme. Documents reviewed included Programme Financial Agreement, proposals, grantee reports, notes of Steering Committee meetings, evaluations and other background information on ACP microfinance. [Annex 1](#) provides a (non-exhaustive) list of background documents;
- Interviews of 64 key informants were conducted across stakeholder organisations, Programme grantees, and more including participants from DG Dev, ACP Secretariat, and the DG AIDCO Task Manager, staff of organisations working on each of the programme components, donors, and EC Delegations involved in the Programme. The EU/ACP Programme Coordinator provided regular insight into the Programme execution. A list of Programme respondents is included in [Annex 2](#). The consultant prepared a tailored, structured questionnaire for each informant type. A sample questionnaire is included in [Annex 3](#);
- A visit to Kenya and Uganda was undertaken to maximize the interviewing process in the field. This included participating in the African network MAIN annual conference attended by several of the grantees, a workshop with some SIDI partners, and a field trip to Kenya.

## 1.2 Programme Background

In January 2005 the EU/ACP launched a five year Microfinance Programme focusing on capacity building of microfinance actors in ACP countries. The Programme came about after evaluations in 1997 and 1998 of EC micro-projects pointed to problems with credit lines. Along with discussions organized by DG Dev on private sector and MFI performance/rating, the environment was seen as ripe for a reorientation of the EC's microfinance activities. Terminating the financing of credit lines was viewed as critical, not only because they had not proven successful, but also because it allowed for a specialization of financial instruments through the EIB. The CGAP peer review confirmed this assessment in the spring of 2003.

It is in this context along with the EU/ACP Cotonou convention and EC's private sector strategy, that the Programme was conceived. Its overarching goal is to promote the development of more effective micro-enterprises by enhancing the microfinance market and helping it to become part of the broader financial system. It was determined that this would be best achieved by developing and promoting good practices for supporting microfinance with capacity building, transparency and enhanced efficiency. Since CGAP's core strategy is to enhance efficiency and transparency, the Programme was to engage more actively within CGAP's programme to ensure greater chance of success.

Financed by the 9<sup>th</sup> European Development Fund (EDF), this flagship Programme seeks to expand poor people's access in ACP countries to a wide range of quality financial services, including credit, savings, transfers and insurance. The Programme supports the development of sustainable microfinance institutions (MFIs), promotes MFI ratings, stimulates improvements in performance by strengthening MFI information systems, and enhances transparency and efficiency in ACP microfinance markets. The Programme emphasises developing innovative solutions, disseminating good practices, and promoting South-South learning throughout the ACP region.

Some of the key drivers of the launch of this programme were:

- The EC's commitment to improving its microfinance operations;
- CGAP's input (peer review and high level aid effectiveness meeting in 2004 supporting the design of the programme);
- ACP secretariat buy-in;
- The team work of stakeholders (DG AIDCO, ACP Secretariat, Commissioner Michel Cabinet) and CGAP to identify programme 'champions'.

## 1.3 Programme Structure

With a 15 million Euro budget for 5 years, the Programme was structured in three main areas of intervention: (i) institutional strengthening; (ii) microfinance ratings & information system; and (iii) efficiency and transparency. The table below highlights the various components and partners along with the budget. Implementation of most of the supply-driven component of the first area of intervention had not started at the time of the mid-term evaluation and therefore was not part of the scope of this review.

Table 2: EU/ACP Microfinance Programme component and budget breakdown

Programme Component	Activities	Partners	Budget
<b>Component 1: Strengthen the capacities of microfinance actors</b>	<b>Demand-driven component: 11 grantees</b>		7,200,000
	Diversify financial products and services (new savings services, microinsurance, etc.)	Urwego (Rwanda), Opportunity International UK (regional).	
	Apply new technologies	Procredit (DRC).	
	Expand to rural and remote areas	Aquadev and Etimos (Senegal), MIFED and CIDR (Cameroon); KDA (Kenya); SIDI, Alterfin and MAIN (12 MFI partners).	
	Enhance transparency	Triodos International Fund Management and Facet (regional). AMFIU Uganda.	
	Create microfinance banks	LFS Financial Systems (Madagascar), Horus Development Finance (Cameroon).	
	<b>Supply-driven component (Caribbean and Pacific, and strengthening an enabling environment)</b>		800,000
	Caribbean: Carib-Cap (capacity building project for Caribbean MFIs)	Caribbean Microfinance Network, Multilateral Investment Fund and Caribbean Development Bank	
	Pacific: promote linkages among institutions and the use of technology to overcome region specific barriers to access to finance	Microfinance Pasifika, UNDP and UNCDF (Pacific Financial Inclusion Programme).	
	Scholarship scheme to for the Boulder Microfinance Training, co-organisation of the Central African Policy Forum.	ACP policymakers Region's Central Bank	
	<b>Total Component 1</b>	<b>8,000,000</b>	
<b>Component 2: Support and promote the use of ratings and strengthen information systems of ACP MFIs</b>	Ratings: Improve information available on ACP MFIs through global multi donor rating fund.	Coordination and awareness raising: ADA; Rating: several rating agencies.	
	Information systems: Provide support on information systems so as to improve growth, transparency and performance.	CGAP and experts consultants	
	<b>Total Component 2</b>	<b>2,860,000</b>	
<b>Component 3: Enhance transparency</b>	Technical Advice, Training Research, Standards promotion Information dissemination	Implementation: CGAP (especially Africa Team). Central Banks, governments, consultants,	<b>2,500,000</b>

Programme Component	Activities	Partners	Budget
and efficiency in the microfinance market.		MFI, etc.	
		<b>Total component 3</b>	<b>2,500,000</b>
<b>Coordination</b>		<b>Total coordination</b>	<b>740,000</b>
<b>Others</b>	Evaluation, audit, contingencies.	<b>Total others</b>	<b>900,000</b>
		<b>GRAND TOTAL</b>	<b>15,000,000</b>

## 1.4 Programme Achievements

The mid-term results of the Programme speak for themselves. It has undoubtedly been a success with a majority of its targets already reached or exceeded. Most of the remaining targets are on track for achievement by Programme termination. The progress, in relation to targets, is detailed in [Table 3](#) below.

Highlights of achievements in capacity building alone include:

- More than 40 MFIs directly strengthened (by Procredit, URWEGO, Aquadev, Opportunity International, SIDI);
- 536 people trained in over 20 activities for Financial Service Associations (KDA), rural MFIs (SIDI) and networks of village banks (MIFED);
- 53% increase in outreach of MFIs supported directly and indirectly serving more than 480,000 clients;
- networks supported (AMFIU, MAIN);
- start ups (1 in Madagascar, LFS and 1 in Cameroon, Horus);
- interventions complementary to the Cotonou Investment Facility (LFS, Horus and Triodos).

### 1.4.1 Contributing to Professionalisation and Diversification

The Programme contributes to the professionalisation of the MF industry and helps to diversify the range of providers of financial services.

The Programme provided difficult-to-obtain resources to some grantees that are critical to institutional strengthening (e.g., MIFED's networks of savings and loans, or SIDI's existing partnership with small MFIs).

For others, the Programme provided the opportunity to experiment with more cutting edge products, such as Opportunity International (OI) with insurance or Triodos with its GRI tool.

By and large the mechanisms that the various organisations have employed thus far benefit both themselves and a whole array of actors and the sector at large. [Annex 4](#)

provides examples related to expanding the range of financial services for this programme.

#### 1.4.2 Advancing the Industry

The nascent Programme continues to advance the microfinance industry through the development of new products and models, and to share them with the industry at large.

- Throughout the Programme, public training modules are being developed and made widely available. They can be useful to other institutions and countries. Thanks to the Programme the lessons drawn by organisations in implementing these tools are even more interesting. Though the technology is still in its infancy, lessons gained from work on such projects as mobile banking<sup>1</sup> and the introduction of ATMs in the Democratic Republic of Congo can help develop models to advance the sector as a whole.
- The challenges of rural finance have been approached by strengthening institutions based in rural areas (e.g., MIFED<sup>2</sup>, KFS<sup>3</sup>, SIDI) rather than by devising new models/products. Though these organisations tend to be smaller in scope and require much greater capacity building to improve scale, their success so far at reaching out to very remote areas and building capacity is quite useful.
- The Rating Fund successfully achieved its objective of improving MFI transparency by developing a microfinance ratings field. It also led to an increase in the use of ratings, which itself helped strengthen MFI performance. The Rating Fund demonstrated the value of undergoing a rating, and therefore demand became more market-driven. In this respect, it has significantly contributed to the goal of furthering the industry.

#### 1.4.3 Improving Perception of the EC, Donors and Grantees

Thanks to this Programme, the EC's image in microfinance has improved overall. Grantees have gained experience and are enjoying the benefits of their increased credibility.

The Programme has contributed to positively improving the perception of the EC, donors and grantees in the following ways:

- The EC's visibility throughout the process has been high. During discussions with the programme sub-recipients in the field, everyone was very aware of the contribution of the EC to their work and the benefits it brought;
- It has boosted hands-on, external collaboration between the EC and other donors active in microfinance, such as UNCDF or IADB, ILO. It has also facilitated intense coordination on issues such as the Rating Fund and policy forum. In fact in this respect, the EC got the highest marks in terms of its proactive attitude and flexibility;

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<sup>1</sup> In Senegal, Aquadev is working with 15 'mutuelles' with an ultimate motive of connecting them into a functional network.

<sup>2</sup> In Cameroon, MIFED is strengthening 'mutuelles' through the work of their apex organisations so as to improve rural outreach.

<sup>3</sup> In Kenya, KFS has worked on governance and financial strengthening of their financial services association so as to ensure that rural areas are being served. KFS treats every association as a separate entity for the goal of capacity building.

- It has made the EC HQ in Brussels synonymous with high value comments through the quality monitoring performed by the Programme Coordinator. Though a CGAP staff member, the Programme Coordinator totally identified with the EC programme and was perceived as the EC spokesperson;
- It has indirectly provided training to its Delegations and has brought them closer to their field partners;
- EIB, through its microfinance investment vehicles, has invested in two of the Greenfields. Other grantees have contracted additional donor funding. The reasons they invoke are twofold:
  - The strengthening aspects of the Programme made some organisations better prepared and more attractive for other types of funding;
  - The fact that a grantee received this type of funding made the organisation more credible and professional in the eyes of some other donors.

Table 3 : Areas of intervention and performance of the EU/ACP Microfinance Framework Programme

Description of proposed activity	Activities and Partners/Original Budget	Performance indicators for entire project: 2005-2009	Achievements and outputs mid-term: 2005-2007
<b>(i) Strengthen capacities of microfinance actors in ACP countries // 8m Euros: 7,2m Euros for ad hoc facility</b>			
<p><b>Call for proposals (CfP)</b> for demand-driven capacity building activities in the field of microfinance. The 11 grants selected address (one or more of) the following objectives of the actions are:</p> <ul style="list-style-type: none"> <li>• Diversify financial products and services</li> <li>• Apply new technologies</li> <li>• Expand to rural and remote areas</li> <li>• Enhance transparency</li> <li>• Create microfinance Banks</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Urwego</b> pilots new savings services in <i>Rwanda</i>.</li> <li>• <b>Opportunity International</b> UK strengthens the capacity of 7 partner banks in <i>Africa</i> to refine/develop products, including microinsurance; received seed capital for its Microinsurance Agency;</li> <li>• <b>Procredit</b> introduced first ever ATMs and point of sale devices in <i>DRC</i>.</li> <li>• <b>Aquadev and Etimos</b> strengthen 12 small financial service providers operating in rural areas in <i>Senegal</i>;</li> <li>• <b>MIFED and CIDR</b> support the CVECA (village bank) networks in the North and Centre of <i>Cameroon</i>;</li> <li>• <b>KDA and Africa Now</b> improve the capacity of 46 financial services associations in rural <i>Kenya</i>;</li> <li>• <b>SIDI, Alterfin and MAIN</b> work with 12 MFIs operating in underserved areas and promote “<i>mutuelles de solidarite</i>” in <i>francophone African countries and Haiti</i>;</li> <li>• <b>Triodos International Fund Management and Facet</b> endeavour to enhance the risk management function and social reporting capabilities of MFIs in <i>several African countries</i> through SMARTRAC;</li> <li>• <b>AMFIU</b> helps to improve consumer protection in <i>Uganda</i>.</li> <li>• <b>LFS Financial Systems</b> set-up the first Microfinance Bank in <i>Madagascar</i>;</li> <li>• <b>Horus Development Finance</b> created a greenfield in <i>Cameroon</i>.</li> </ul>	<p>Outputs/outcomes expected according to the logical framework:</p> <ul style="list-style-type: none"> <li>• 40 ACP MFIs strengthened</li> <li>• 20 training activities</li> <li>• improved performance of supported MFIs (outreach increased by at least 40% and operational costs over outstanding portfolio reduced by 20% for supported MFIs)</li> <li>• 2 start ups supported</li> <li>• 3 complementary interventions with Investment Facility</li> </ul>	<p><b>Targets already achieved mid-term:</b></p> <ul style="list-style-type: none"> <li>• More than 40 MFIs directly strengthened (by Procredit, URWEGO, Aquadev, Opportunity, SIDI)</li> <li>• 536 people trained in over 20 activities for Financial Service Associations (KDA) , rural MFIs (SIDI) and networks of village banks (MIFED)</li> <li>• 53% increase in outreach of MFIs supported directly and indirectly serving more than 480,000 clients</li> <li>• 2 networks supported (AMFIU, MAIN)</li> <li>• 2 start ups (1 in Madagascar, LFS and 1 in Cameroon, Horus)</li> <li>• 3 interventions complementary to the Cotonou Investment Facility (LFS, Horus and Triodos).</li> </ul>
<p><b>Ad hoc facility:</b> Provision of</p>	<ul style="list-style-type: none"> <li>• <b>Scholarships</b> for ACP policymakers for three week</li> </ul>	<p>Technical assistance and training made</p>	<p><b>On individual grants by March 2008:</b></p> <ul style="list-style-type: none"> <li>• 5 projects exceeded their minimum performance thresholds</li> <li>• 2 more were on track to achieving them</li> <li>• 4 face some delays in achieving their targets for mostly exogenous reasons or overestimation</li> </ul> <p><b>Performance on track</b></p>

Description of proposed activity	Activities and Partners/Original Budget	Performance indicators for entire project: 2005-2009	Achievements and outputs mid-term: 2005-2007
<p>technical assistance on short term for the supply-driven capacity building component (for areas not well covered by the CFP)</p>	<p>Boulder Microfinance Training, Turin, Italy, managed by ITC/LO</p> <ul style="list-style-type: none"> <li>• <b>Central African Policy Forum</b> co-organised with <i>Central Bank of Central Africa and CGAP</i></li> <li>• <b>Design of regional capacity building projects</b> for <i>Caribbean with MIF/IADB and CDB</i> and <i>Pacific with UNDP/UNCDF</i></li> </ul>	<p>available.</p>	<ul style="list-style-type: none"> <li>• 10 policymakers participated in training in 2007, 21 scholarships awarded 2008</li> <li>• High level forum with 45 governors and ministries of finance</li> <li>• Contracts for Carib-Cap and Pacific Financial Inclusion Programme signed.</li> </ul>
<b>(ii) Support the supply and use of rating in microfinance and strengthen information systems of ACP MFIs // 2,860,000 Euros</b>			
<p><b>Co-finance ratings</b> through multi-donor Rating Fund</p> <p><b>Promote awareness raising</b> in field of microfinance ratings</p>	<ul style="list-style-type: none"> <li>• <b>Rating Fund:</b> EU/ACP Microfinance Programme joined CGAP, IADB and Luxembourg in a global Rating Fund administered by ADA.</li> <li>• <b>Activities organised</b> included workshops, dissemination of newflashes, publication market outlooks and strengthening of capacity of raters (feedback, annual meetings, training subsidies).</li> </ul>	<p>Outputs/outcomes expected according to the logical framework:</p> <ul style="list-style-type: none"> <li>• 100 ratings co-financed in 5 years</li> <li>• 2 awareness raising workshops per year</li> </ul>	<p><b>Exceeded targets at mid-term:</b></p> <ul style="list-style-type: none"> <li>• 105 ratings approved</li> <li>• 7 workshops organised</li> <li>• Accessible Web site with all co-financed ratings disclosed</li> <li>• Positive evaluation of last years of Rating Fund</li> </ul>
<p>Support global information Systems Program</p>	<ul style="list-style-type: none"> <li>• <b>IS Fund:</b> Co-financing of IT technical assistance for ACP MFIs</li> <li>• <b>Market intelligence:</b> software reviews and analysis</li> </ul>	<p>Not foreseen in original logical framework</p>	<p>Started in January 2008</p>
<b>(iii) Enhance transparency and efficiency in the microfinance market // 2,5m Euros</b>			

Description of proposed activity	Activities and Partners/Original Budget	Performance indicators for entire project: 2005-2009	Achievements and outputs mid-term: 2005-2007
<p><b>Support transparency and efficiency by contributing to the implementation of CGAP's work program 2003-2008.</b></p> <p>CGAP, a global resource centre for the microfinance industry, has a dedicated Africa initiative. It provides specialised services such as technical advice, training, research and development, standards promotion, and information dissemination for the benefit of microfinance actors in ACP countries.</p>	<ul style="list-style-type: none"> <li>• <b>Promoting institutional and product diversity</b> through innovation grants (graduation pilot, PPIC and technology) and technical assistance (RAS) for ACP MFIs; support global resources on savings and a TA facility on remittances</li> <li>• <b>Building financial and social transparency</b> by launching a Financial Transparency Award; improving the Microfinance Information eXchange and participate in standard setting for social performance; piloting of Progress-Out-Of-Poverty index in ACP countries</li> <li>• <b>Enhancing regulatory and policy framework</b> through a Regulation and Supervision Resource Centre, training of policymakers and policy advice;</li> <li>• <b>Improving donor effectiveness</b> through donor mapping and training of staff operating in ACP countries;</li> <li>• <b>Training:</b> Support for training of trainers through CGAP partners</li> </ul>	<p>Indicative indicators in the logical framework for the 5 year period:</p> <ul style="list-style-type: none"> <li>• 5 new models of financial services for the poor piloted in ACP countries;</li> <li>• 5 methodologies for reaching under-served client groups documented;</li> <li>• Reporting to the MIX and adopting MIX standards on <ul style="list-style-type: none"> <li>o Financial reporting: 40 ACP MFIs, 600 globally;</li> <li>o Depth poverty outreach: 15 ACP MFIs, 150 globally</li> <li>o Social performance: 10 ACP MFIs, 100 globally</li> <li>o 50 investors reporting to the MIX</li> </ul> </li> <li>• 2 ACP MFIs financed.</li> <li>• 10 policy, regulatory and supervisory frameworks reviewed</li> </ul>	<p><b>Target on track:</b></p> <ul style="list-style-type: none"> <li>• 3 new models of financial services for poor piloted in ACP (cell phone and money transfers, agricultural lending)</li> <li>• 1 methodology for reaching under-served client groups documented (graduation)</li> </ul> <p><b>Exceeded targets at mid-term:</b></p> <ul style="list-style-type: none"> <li>• Reporting to the MIX and adopting MIX standards on <ul style="list-style-type: none"> <li>o Financial reporting: 242 ACP MFIs, 945 globally;</li> <li>o Social performance: 8 ACP MFIs, 34 globally</li> <li>o 100 investors reporting to the MIX</li> </ul> </li> <li>• 9 ACP MFIs financed (2RAS, 5 PPIC, 2 Technology)</li> <li>• 11 countries and 2 regional Central Banks assisted with reviews of policy, regulatory and supervisory frameworks and 16 national strategies</li> </ul>
<p><b>Other: Evaluation, learning, communication and coordination // 900,000 Euros and 740,000 Euros</b></p>			
<p><b>Extracting lessons learned and disseminating them</b></p>	<p>Studies, evaluation and extracting lessons learned from funded initiatives and disseminating them</p>	<p>Not foreseen in original logical framework</p>	<p><b>On track, more to follow</b></p> <ul style="list-style-type: none"> <li>• Bilingual Web site regularly updated with lessons learned by the Programme and its grantees.</li> <li>• Lessons published on implementation of performance based contracts</li> </ul>

## 1.5 Programme Impacts and Levels

It is premature to assess achievements in terms of impact at this time.

Grantees, almost unanimously, feel that it is somewhat premature to mention achievements in terms of impact. They prefer to discuss progress to-date and setting the stage for future innovations. For the purpose of this mid-term review, the following two aspects were examined: 1) the extent to which grantees had set up mechanisms to measure impact and 2) whether or not it is possible to see some impact. Some proxy indicators for capacity building, strengthening MFI performance and enhancing transparency and efficiency have been identified and data is being collected. Some data is already available to draw some preliminary conclusions of impact. [Annex 5](#) presents the proposed impact levels, tools by each organization, and achievements-to-date.

Regarding the demand driven component, below are a few common features for impact:

- Grantees have thought through the issue of impact in a relatively similar way, with a heavy focus on perceived impact at the MFI level first and foremost, leading to longer term expected impact at the household level. While grantees conduct different activities, their ultimate goal is very similar;
- Demonstration effect is often mentioned as an indirect impact of the work done, which is particularly relevant to a pilot programme such as the EU/ACP. There is already evidence of how some of the work has positively influenced the environment: ProCredit's work has led other banks to offer ATM services, Equity Bank is now coming into rural areas where KDA started, etc.);
- Few grantees integrate specific impact/social performance monitoring tools in their planned work (MIFED, SIDI with SIPEM, KDA). Most organizations will look at impact from the point of view of their regular activities and through proxy indicators. This is understandable so as to focus on work at hand and not overburden it. Nonetheless it may limit the findings in this respect in terms of reliable outcomes and impact;
- With some activities, the issue of attribution may be especially hard to manage, for instance with activities at the macro levels where other factors in the environment as well as governments' initial openness to policy guidance may also play an important role in the outcome;
- While it may be interesting to develop some impact and social performance management tools, the time this would require should not be underestimated, and since the proposals were approved without this, it would be on the EU/ACP side to provide support to do this;
- Some grantees have opted for working with many different partners in such a way that the impact on these partners is somewhat diluted. There may be a need for these organizations to consider making priorities, or finding synergies in terms of TA and training offered.

### **Some examples of impact at the institutional level**

- K-Rep reports that the SMARTRAC training on GRI was such an eye opener that a senior person was recruited in coordination with the board of directors to ensure that these new principles would be embedded in the bank
- KDA reports that with the training made possible through this programme, staff of financial services association not only better understand how to improve their recovery, but they also now have some expectations of their own supervisor.

- Omipa, a rural based savings and loan 'mutuelle' supported by SIDI, reports that between October 2006 and March 2007, during which a financial expansion study was funded, membership increased by 52%, share capital by 110% and savings balance by 232%.
- The Micro Insurance Agency reports that thanks to its various products, people understand better disability and fewer claims are rejected so that coverage is increased. Coverage of various types of products (housing, disability and schooling) has increased.

## 1.6 Programme Sustainability

The Programme has ensured emphasis on sustainability by making it a criterion in the application of the Call for Proposals as well as in the reporting format, which includes progress-to-date made on this specific issue. Depending on the types of projects and models, it is a more or less straightforward proposition, and some more thinking and potential support in this regard may be needed, especially regarding service sustainability and exit strategies.

Looking at the Programme as a whole, capacity-building activities that aim to strengthen institutions will reap benefits long after the Programme has ceased. Staff training, membership training, microfinance courses, products developed through technical assistance, new partnerships with insurance companies, new management information systems, and ratings of institutions will change the institutions regardless of the duration of the Programme. Greenfields may not have started without this Programme. By the end of the Programme, some of the projects will not have reached sustainability themselves. There will be a need to continue monitoring to keep the focus on this issue. What some organizations operating at a wholesale level are actually contemplating are various exit strategies. For example, Aquadev plans to create a network of the best 'mutuelles' and to have at least started the process by the end of the EUACP Programme. K-Rep is planning to connect the successful financial services associations into the K-Rep Bank network.

There are two types of sustainability—financial and institutional—and each are measured differently depending on the institution and project. For example, sustainability for Greenfield banks and the various MFI partners within the Programme is along the same lines as financial sustainability and profitability, and is their prime and overarching objective. For other initiatives, financial sustainability is measured through fee for services (e.g., KDA charges the financial service associations in rural areas for their services. AMFIU charges for the sales of consumer protection handbook to target groups. MIFED has the financial sustainability of the networks tied to the creation of more 'caisses' for each network (especially in the North and the Centre), with assumption on cost of funds and loan loss reserve.

Institutional sustainability for Procredit focuses on the return on investment of the activity (ATM expansion) funded by the EC. The bank has gone through such an enormous growth since the start of the project that the bank is fully sustainable and can take on the cost of further ATM expansion itself. Horus puts emphasis on training of staff. For LFS, institutional sustainability refers to transformation of the entity into a local, profitable institution.

Some partners may be overly optimistic in terms of the timeframe they contemplated, or the cost recovery model they had in mind. This issue is discussed in the recommendations section.

Looking at the components separately, CGAP's activities highlight good practices, setting standards, and communications and advocacy. In this respect, some activities may be easily replicated, but this is not to be confused with sustainability. The purpose is to shed light on new practices and new models of partnerships or delivery. In some cases, it may be to create sustainable activities.

The issue of sustainability is also relevant to the Rating and IS fund. The evaluation of the fund has correctly concluded that it was not the responsibility of the rating fund to assume long term sustainability of the rating industry, as it was meant only to be a catalyst.

## 2 Quality of Programme Design

From the point of view of the EC and its work in microfinance, the Programme has been quite unique in relying on outside expertise to create links and enhance quality, unique in its focus on capacity building rather than credit lines, and unique in its use of performance-based contracts for microfinance. The demand-driven component's breadth of coverage (thematically, by institutional type and regionally) is a unique and excellent feature.

The Programme could not have been more timely or appropriate—in focus, scope, and flexibility. Some of the main stumbling blocks for microfinance in ACP countries (especially Africa) include lack of capacity, necessity to operate efficiently in rural areas (through innovative modes of delivery, products and partnerships) and importance of promoting transparency. It has responded to the current challenges of ACP microfinance sectors with capacity building through the work of the 11 grantees and so-called “supply-driven component”, innovation and improved donor effectiveness through the work conducted by CGAP and transparency through all three components (and most directly through the rating/information systems fund, And it has adapted to meet the demands created by changes in the industry since the Programme's conception (e.g. the creation of the global IS fund, maintenance of a bilingual Web site for knowledge sharing and dissemination).

### 2.1 Building Capacity in ACP Countries

#### 2.1.1 Innovation and Flexibility by Design

The Call for Proposals was innovative in that institutions—including for-profit organisations—had the option to propose project ideas; the design of guidelines stemmed from a demand-driven survey which helped establish strict selection criteria; and performance targets were designed to be used as the backbone for monitoring the achievement of results.

This approach, combined with intense promotion through industry channels, attracted professional microfinance partners with a deliberate bias for international organisations large enough to absorb this type of activity at the time of proposal writing, as well as at the time for payments and reporting requirements. To balance this out, the Programme selected regional initiatives that trickled support to the micro-level through direct links to national and local organisations.

The programme design was flexible in that it allowed for the EU/ACP Programme Coordinator to engage with donors (IADB/IMF for the Caribbean and UNDP/UNCDF for the Pacific) to come up with ways to contribute to other programmes when viable candidates for the Caribbean and Pacific were lacking as a result of the Call for Proposal selection. This kind of

collaboration was built-in from the very beginning and viewed as collegial and proactive by the other donors involved.

The time required for the entire process of the Call for Proposals was put to good use. The promotion of the CfP increased EU visibility and raised awareness. While securing Delegation buy-in, new systems were put in place.

### 2.1.2 Activities and Comparative Advantage

The Programme provided some organisations (e.g. SIDI, KDA) with funding for existing activities, which can be rare in the field of capacity building. The Programme facilitated the creation of Greenfield institutions, and provided support for capacity building to many small organisations simultaneously and for innovation.

### 2.1.3 Linking Grantee Work with EIB Financial Instruments

The involvement of the EIB in the Steering Committee and creating a linkage between grantee work and financial instruments provided by the EIB is both positive and natural. These types of linkages are now quite widespread in the industry as social investors and microfinance investment vehicles (MIVs) increasingly equip themselves with a Technical Assistance instruments. Capacity building can pave the way for addressing implementation challenges that can arise. Combining the investment-like instruments of equity and guarantee is important for the establishment of sustainable institutions.

This Programme has seen linkages between some of the Greenfield institutions and the EIB<sup>4</sup>. In fact, one of the selection criteria for the Call for Proposals was the (potential) linkage to the EIB. And the Rating Fund module was also designed with the EIB in mind as an interested party<sup>5</sup>.

To-date, EIB has focused first and foremost on microfinance investment vehicles (MIVs) such as Africap, Advans, Access Microfinance Investment Company, MicroCred and ShoreCap, while the Programme was open to MIVs but has primarily worked at the retail institutional level or with regional networks. Additionally, many organizations in Africa especially will require other forms of financial instruments, such as credit-enhancement, which traditional MIVs are not equipped to deliver. This in no way undermines the role that EIB has played and could play in a future programme, but it does welcome the creation of linkages with a broader range of financial instruments that could be provided by EIB as well as by others.

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<sup>4</sup> This has certainly favoured the selection of 2 Greenfields and OI and SMARTRAC projects.

<sup>5</sup> At the same time, grantees that have benefited from both EIB and EU/ACP did not necessarily believe that the EU/ACP funds had played a role in leveraging the EIB investment. It may be a question of awareness of the linkages built.

## 2.2 Supporting the Use of Microfinance Ratings in ACP Countries

### 2.2.1 The Rating Fund

The Rating Fund pilot began in 2001. It was designed to build on existing rating initiatives at the time and to accelerate/shape the market's future development.

An evaluation of the Rating Fund<sup>6</sup> has concluded that:

- In terms of cost and timing, the Rating Fund was the best alternative available for developing the market;
- The design of the rating fund was flexible in that it incorporated a variety of feedback mechanisms that enabled the Fund to track market developments and respond to fast changing market conditions;
- It sought to remain relevant by having a built- in Web site so as to remain a central source of information for various market actors, and it disseminated new sources of market information, such as market studies and surveys;
- The design of the Rating Fund corresponded well with the assumptions and objectives of the market development at the time, and changed during the various phases of the rating fund's lifecycle. For example, during phase one, the focus on developing the ratings market indeed increased transparency and demand became more market-driven;
- A particularly strong point of the design of the fund was its ability to change during the second and third phases to reflect the evolving changes on the market. The modifications made enabled to better stimulate demand, provide more detailed information about rating products and suppliers, and aimed at strengthening the capacity of the rating agencies.

## 2.3 Enhancing Transparency and Efficiency in the Microfinance Market

In order to further the goals of efficiency and transparency, the EC and ACP Secretariat chose to work with CGAP, an internationally recognized industry body to build in good practice and further knowledge of the broader MF industry, i.e. contributing to public goods. CGAP provides a vision for and broadens thinking about scaling-up microfinance. The strategy has increased CGAP's relevance to and influence over mainstream banks and development finance institutions. It has also provided CGAP an opportunity to put financial exclusion at the top of the mainstream financial sector agenda.

CGAP does not typically get so involved in programme design and management, making this a unique collaboration and resulting in a shared vision for microfinance. Through its membership of CGAP the EC has a voice in annual meetings, and in contributing to the thinking on new microfinance strategy.

CGAP's Phase III evaluation concluded that by focusing more heavily on building inclusive financial systems, they become even more relevant to the industry. Most CGAP members are supportive of its strategy. It is also perceived that CGAP has done excellent work designing and

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<sup>6</sup> Global Microfinance Rating and Assessment Fund, Final Evaluation Report. March 7, 2008, Gail Buyske.

managing the various initiatives under the objective of transparency. The positive changes to increased transparency by microfinance institutions are likely to endure.

## 3 Programme Management, Monitoring and Implementation

### 3.1 Effective Programme Management and Supervision

The CGAP Programme Coordinator and the AIDCO C4 Programme Manager and staff in EC delegations provide effective and comprehensive management of the Programme. Each have been able to focus on their comparative advantages and work well together as a team.

Interview respondents unanimously appreciated the Programme Coordinator's technical expertise and proactive readiness to solve problems. The Programme Coordinator uses her connections within CGAP to great effect in the interest of the Programme, pulling in CGAP colleagues with various areas of expertise.

The AIDCO C4 Programme Manager also plays an instrumental role in procedures and pushing issues forward within the system. Though the Programme Manager's work was rarely visible to outside parties, it is still critical to the success of the activities undertaken.

#### 3.1.1 Steering Committee

The Steering Committee is a formal body that meets once a year. The ACP General Secretary presides over the relatively large meetings with as many as 10 attendees. Feedback on the meetings show that they are always very well prepared by the Programme Coordinator who succinctly summarizes all the reports from grantees and other information (CGAP reporting) for committee members. The ACP Secretariat also provides support. Several members of the Steering Committee (mostly from EC, ACP and CGAP) work together regularly outside of committee to ensure sound programme implementation.

EIB has been acting as an observer in the Steering Committee. This was deemed important as a measure to avoid conflict of interest should some grantees become clients of the investment body. Nonetheless, it is not clear from the minutes of the meetings and from discussions with respondents whether the issue of being an observer or a full fledge member has affected the outcome. It can still be assumed that maintaining this distinction is important to the perception of transparency given. However, if a goal is to establish clear linkages between the Programme and the EIB, this distinction may not be necessary.

### 3.1.2 Advisory Committee

The Advisory Committee never took shape. Instead, the Programme Coordinator has relied on expertise and advice from CGAP colleagues (who reviewed and commented on every Programme and technical report), and on advice from established contacts with other microfinance networks, such as SEEP.

### 3.1.3 Other Committees

The Evaluation Committee was created to assess the 76 applications that came forth before October 20, 2005. It was composed of five voting members representing the ACP secretariat, DG AIDCO (Units C4 and E2), DG Dev and CGAP who were actively involved in the evaluation process. The committee met 5 times. It was chaired by the Finance and Contract Unit (C5) to screen out ineligible candidates from a procedural point of view. The committee was rather formal and evaluations by the consultants were rather hard to turn around. Therefore the committee depended heavily on the scores that delegations and consultants provided. Overall, the Evaluation Committee (aided by outside experts) was perceived as well managed.

The Technical Committee has not yet officially met. It was created to allocate the remaining funds of the supply-driven capacity building component.

## 3.2 Performance-Based Monitoring

Performance-based monitoring is fair, straightforward and useful as an analysis tool for both grantees and Delegations. Performance-based monitoring-to-date has proven essential to the Call for Proposal components, relying heavily on quarterly and annual reporting as the main source of information. The Programme Coordinator has an excellent command of monitoring the work plan. Therefore, information provided in the reports is perceived as accurate and a good source of informed opinion.

The few ad-hoc visits that the Programme Coordinator has made necessarily combine several objectives into one visit (e.g. policy fora or supply side assessment). The Programme Coordinator focuses on content of the grantee performance (as compared to thresholds overtime), while the EC staff (AIDCO and Delegations) tend to focus more on procedures and formalities. There is an exchange of input between the EC/Delegations and the Programme Coordinator.

The reports generated are well structured, useful and clear. The yearly report goes into greater detail and is accompanied by the yearly financial report. There are no additional requests, limiting the reporting burden on grantees.

## 3.3 Implementation Benchmarks

### **Programme Ingredients for Successful Implementations**

- Programme management's accurate detection of legitimate and important reasons to modify work plans.

- CGAP's recruitment of Programme Coordinator with microfinance expertise.
- Programme's flexibility to adjust to market trends with IS fund, adding a supply-driven component, policy fora.
- Content review centralization to ensure Programme components treated fairly, respective to each other.
- Contract generalization to given procedures, and asking for derogations to contracts when attaining conditions appear difficult.
- Ensured understanding with all Programme participants of individual roles and responsibilities including Programme management and reporting requirements.

Implementation has not only been on track and in accordance with the design and performance benchmarks, in many instances, minimum performance benchmarks have been exceeded. This is particularly commendable considering the number of grantees and the various levels of sub-contracting.

As might be expected, there have been project delays or revisions. Some of these delays or modifications of the work plan have been outside of the control of the partners, linked to an overestimation of the plans or due to a lack of interest from some pre-selected partners at the time of implementation. Grantees have also complained that the length of approval of the Call for Proposal meant that some plans had to be changed subsequently. While this may be true, organisations whose main activities remained the same, regardless of budget itemization, had less difficulty with this. The Programme's willingness and ability to make changes and work around those issues largely outweighed any delays.

Some additional comments/suggestions were made by interviewees:

- A few indicators are not relevant for analysis on a quarterly basis. Nevertheless it is best to collect data quarterly so as to stay on track with the programme (rather than catching up after one year);
- The EU/ACP Programme could ensure that some tools, such as log frames and action plans were also put in place by the grantees, rather than only targets and benchmarks. This helps take corrective measure. While this can be a friendly reminder, the consultant believes that making it more enforceable may lead to an excessive reporting imposition on the grantees;
- Some grantees, while stating that the clarification questions from the programme coordinator are always pertinent and proactive, have expressed a desire for further discussion about content. These discussions would focus on in depth issues related to the projects, which would be more led from a resource person point of view rather than a grantor-to-grantee relationship one. Ad-hoc visits could help further this process. It would seem natural to expect Delegations to conduct most of these visits. Whenever some Delegations had a chance to make a field visit, their involvement increased since it was indirect training and a way to better understand the issue. However this has seldom been the case. In part it is due to the fact that the programme represents little of the portfolio of projects handled by each delegation. It is hard for them to de-link the level of effort from the budget and for them to spend more time on this.

### 3.4 Payments

Although the EDF procedure for payments is clear, there is a perception among grantees that no uniform payment schedule exists either at EC headquarters, or in the Delegations. Most

grantees have had to deal with delayed payments—in general for several weeks, but in some instances for 4 to 6 months. These institutions have had to subsidize the work they were planning to do with this funding out of other funds. When other funds run out, then the project has to be stalled (AMFIU, KDA). The consultant argues here that using the double standard of requiring on time report and strict observance of performance targets while not respecting obligations not only is bad for partners, but also leads to a negative perception of the EU among grantees. The programme coordinator has been sensitive to this issue and whenever possible has tried to mitigate this effect either by pushing the issue with the Payments and Contract Unit, or by allowing grantees more time to complete their activities. The Payment procedure, including payment request and supporting documentation to provide, should be clarified with grantees, in conjunction with EC operational staff in charge of management of grants.

### 3.5 Costing and Efficiency

Overall, the budget has been allocated and executed cost effectively. As a whole, indirect costs of the Programme are 5% of total budget, which is well within reasonable standards. Monitoring costs have been minimized by the Programme Coordinator’s proactive coordination with travelling CGAP colleagues who have given part of their time, expert advice and assistance in monitoring.

Table 4 Cost allocation amongst components

Programme Component	Percentage of Budget	Approximate Percentage of Time Spent by Coordinator (self-estimation)
Capacity-building	58%	65%
Efficiency and Transparency (CGAP)	20%	10%
Rating fund/Information systems fund	13%	10%
Coordination	5%	N/A
Others (evaluation, audit, contingencies)	4%	N/A
Collaborating with focal point	N/A	10%
Sessions with EC staff	N/A	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The Financing Agreement spells out that within 3 years of the start of the Programme, all the Programme funding must be committed. If not, the funds are decommitted and lost. In this case, a new programme was created to regain most--but not all--of the decommitted funds. The Programme not only lost €316,000 in funds, but also posed a significant transaction cost in decommitted fund recovery. Nonetheless, other factors point to a relative efficient use of resources.

The cost allocation above is imperfect as it only accounts for the work of the Programme Coordinator and omits the time spent by all other parties in the Programme’s implementation. Though it is an underestimation, it is also fair to say that the Programme Coordinator’s time is the majority of time spent on the Programme. Cost allocation seems fairly distributed when compared to the objectives.

The capacity building component—at 58% of costs—is the most labour intensive component and therefore represents proportionally more in terms of level of effort than in corresponding budget value. It is the Programme’s pilot nature and the willingness to carefully monitor results that warranted such small amounts per grantee. Inherent work with the EC represents a non-negligible 15% of the total level of effort as part of an effort to institutionalize microfinance.

When comparing the budget of the Programme to other EU/ACP programmes, the amount is very small. Significant results, such as those achieved by the Programme, can be attained in well-designed microfinance programmes with relatively modest amounts.

When compared to the Business Climate PMU Facility (BizClim) due to its similarities in project life and scope<sup>7</sup>, there are at least two ways in which the EU/ACP programme is more efficient.

- The EU/ACP Programme does not have to rely on pre-selected contractors, where experts change constantly. Every change leads to a transaction cost and risk of decreased programme quality. Most added layers in the EU/ACP Programme are on the fieldwork-side, and therefore relate much more directly to the implementation of the work;
- The EU/ACP has had only one full time staff member and part of an AIDCO Task Manager’s time vs BizClim’s three staff members (two technical and one administrative assistant) involved solely in overhead/management of its programme.

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<sup>7</sup> BizClim’s project life is three instead of five years, and its budget is €18m instead of €15m. BizClim has to work through pre-selected framework contractors.



## 4 Current programme Recommendations & Lessons Learned

It is important to provide a context for the recommendations by highlighting the lessons learned during the evaluation. These learnings should be both disseminated to a wider audience for the current Programme as well as incorporated into potential future programmes.

### 4.1 For the EU/ACP Programme

- This Programme works at different levels of the financial system. Because of this, the Programme is greatly appreciated and its breadth of scope complements other existing programmes. More, however, could be done to link efforts at each level with each other as discussed in the recommendations below;
  - The Programme is involved at the micro-, meso-, and macro-levels of the financial system—working with national microfinance institutions, private companies, supervisors and policy makers as well as rating agencies, associations, private foundations and training providers. This is especially useful for a pilot programme;
  - There is a special focus on the micro level for direct activities. Work at the meso- and macro levels occur mostly through partnerships. Building partnerships with institutions such as CGAP (and ADA) to work on the macro- and meso- levels is a clever way to overcome the lack of the technical and human resource capacity required for good performance.
- This Programme has proven its comparative advantage by allowing for some regional thematic approaches, such as the work done by CGAP, the Rating Fund and the activities conducted by some of the grantees. Indeed, not many funders can have such a scope. Because regional projects tend to overlap with many different actors and yield different results based on context, disseminating the lessons learned (amongst grantees and outside the Programme) is as important as the initiatives themselves. With significant resources, the EU can complement other leading donors that may need additional resources to build capacity of the microfinance actors;
- The Programme has implemented diversification as a risk reduction strategy by opting for a broad range of approaches—from the more traditional support (to smaller, rural based institutions, or weaker savings and loan cooperatives) to more cutting edge initiatives (technology or successful MFIs replication). Currently ‘donors are all reading from one script’, with a tendency to support the cutting edge initiatives. However, in the very short term, there is still a large pool of organisations with unmet needs;
- Working with professional implementing partners and collaborating with other funders strengthens overall programme capacity, thus chances of success;
- There is a limit to how much of the real situation can be anticipated in the proposals prepared at the time of calls for proposals (both application and criteria for evaluation).

Assuming that many factors will change in the industry is a healthy way to proceed and putting in place mechanisms to allow for modifications is realistic approach;

- The Programme gives some freedom and space in terms of activities to be conducted. And even afterwards, the rule of 15% maximum change of budget headings provides opportunities for reorientation which is very positive in terms of the content of work;
- One of the greatest strengths of this Programme has been the simplicity of the reporting. Having quarterly reports is useful to both grantees and managers of the Programme, and keeping them simple is the most productive way to go about them. Clarity in procedures and expectations helps communication and overall performance;
- Organisations that did not identify one key person to manage the relationship and the reporting with the EU have had a harder time complying. Managers or heads should not be running this programme from the administrative point of view. In this respect, organisations that have had layered approaches (regional ones mostly) were better equipped for this Programme;
- The very straightforward approach of working through performance-based contracts could be extended to a payment schedule for the various grantees;
- While the Programme has a specific termination date, much of the work of the organisations will continue. Through their activities, new areas of potential work have emerged which can also be taken on by other initiatives, such as the need to better profile depositors in MFIs to better serve them, or the need for further work on financial literacy;
- Good programme design, management and communication require expertise, as was proven by this Programme;
  - A communications strategy with specific goals for each component can be as important to the EC as the Programme itself. Generally speaking, the unique, demand-driven component of the Programme supporting the diversity of methodologies employed renders a lessons learned exercise especially valuable;
  - The Programme—rich in diversity of methodology and experience gained—needs to take a more proactive stance on knowledge sharing and dissemination within Programme components to realize benefits at all levels of intervention;
  - As a repository of experiments and lessons learned becomes available through the Programme at large, it would be very useful to focus more on dissemination of information within the Programme components itself (and especially toward grantees);
  - The Programme has not prompted much exchange of information among grantees, and grantees remain quite unaware of what others do. Many of them have stated that information about what others are doing would be very useful, and that they would have preferred knowing this from the very beginning. The upcoming learning event will focus on lessons learned after several years of implementation. But this aspect of the programme could have been better emphasized from the beginning, for example through dissemination of the quarterly reports and focusing on operational considerations in real time. Likewise, the Web site, although very well done and informative, cannot hope to be a substitute for more proactive initiatives in terms of dissemination. It is not to be expected that grantees will be taking the lead on this and therefore a proactive stance from the EU programme to get them engaged will be necessary;
  - However, Programme components were not designed specifically with the purpose of mutual exchange and dissemination although they were meant to complement each other;

- Complementarity between various components is most visible if one looks at the levels of intervention: activities carried out at the micro and meso- levels benefit by timely information about new policies at the macro level. Moreover, it is useful for grantees providing TA to small MFI partners to be aware of the newest possibilities with the Information Systems Fund, or to find out more about a regulatory Forum organized in the country in which they operate.
- This Programme can use lessons learned that will benefit other programmes as well, and in other regions. Sharing these lessons can be done in workshops and working meetings or via Web pages;
- When monitoring achievements, it is not sufficient to look at actual versus targets, it is also important to see how these targets were set, and to evaluate the volume and quality of activities leading to these targets during the time period;
- Expertise and experience in the topic at hand, but also understanding of the context, are required so as to set realistic targets.

## 4.2 For the EC

- The EC and ACP Secretariat have placed a high level of political commitment to continue to be involved in support to microfinance;
- The Programme, for those who have worked on it, is viewed as a reference. Success creates more need, which in turn raises expectations that require management. The momentum is growing. In the course of this review, several Delegations asked for Programme support to help design criteria for and evaluate calls for proposals in microfinance. Likewise, grantees have strengthened some institutions—which necessitates more capacity building to support growth;
- Based on a comparison of records of achievement, the EC will enjoy greater success with capacity building programmes than on those that focus on building credit lines;
- Hiring qualified and experienced microfinance people to run the Programme has led to excellent results. For the long term, this will need to be matched with building expertise to reduce dependency. Exit strategies can help overcome this challenge;
- As with any product development process, a programme also needs champions for good design and successful implementation, i.e. a team of committed and capable individuals who will push the process to its conclusion;
- With increased decentralization of the delegations, clarity about their role becomes increasingly necessary. Delegations stand between the formality of payments and the content work. Currently, the size of microfinance with the portfolio of Delegations is not sufficiently large to ensure that Delegations can increase their involvement with content;
- There needs to be a unanimous view on the need for a full time microfinance supervisor of microfinance programmes so that steps can be made to ensure its realization;
- From the point of view of the EU, programme efficiency lowers a programme's level of priority.

## Lessons Learned and Recommendations Extracted from the Field Visits

### K-Rep Development Agency

**Lesson learned:** Basic training (such as computer skills) is necessary before effort is put toward more sophisticated activities such as governance and management training.

**Recommendation:** Prioritize and stagger product development planned in next 12 months in the various Financial Service Associations. Do not attempt to do everything at the same time.

### SIDI

**Lesson learned:** Very small amounts of technical assistance and coaching can go very far in terms of increase in outputs (such as number of active depositors and clients).

**Recommendation:** Prioritize support to the various MFIs according to their potential, commitment and transparency. Make a post-Programme plan to see how to continue supporting them in their expected growth.

### AMFIU

Lessons learned: Consumer protection is of utmost importance to the industry in Uganda, and is very much appreciated by all organisations.

Recommendations: Re-examine core activities and put a priority on those. Re-examine cost recovery model versus donor support, based on core and non-core activities and review business plan.

### Microinsurance agency- Opportunity International

**Lessons learned:** MFIs and NGOs can play a critical role in defining microinsurance product parameters with insurance companies, rather than expecting insurance companies to come up with solutions in line with needs of the poor. Negotiations with insurance companies and finding a suitable comprise is very time consuming and difficult.

**Recommendation:** Continue focus on raising client awareness about having insurance (to reduce invalid claims), and make sure that other MFI products are as competitive and attractive so that clients do not drop out for lack of satisfaction with the rest of the programme (thus losing the insurance product as well). Continue work with new and more challenging types of microinsurance products (such as health insurance).

## 5 Recommendations for remainder of this programme

### 5.1 Content-related Issues

The Programme is useful, generally performing according to plans, and well monitored/run. Therefore recommendations below focus on adjusting a few aspects.

#### 5.1.1 Additional support

Projects that require more complex activities—and are more useful for dissemination than drawing exit strategies from—could receive additional support through budget reallocation (no new resources could be provided at this stage). Assuming these projects are useful and doing their best to reach their plans, this support would not be of an evaluative nature, but rather to optimize the project's implementation phase. (Such projects include AMFIU, KDA, Urwego, Aquadev and SMARTRAC.) This type of support must be provided in a way that creates as little interference with the work of the grantees as possible and rather makes their activities more efficient.

#### 5.1.2 Exit Strategies and Sustainability

From now on, and for all partners, the Programme should focus on exit strategies and sustainability plans. Some partners may be overly optimistic about the timeframes they set, or the cost recovery model they had in mind. For the remainder of the Programme, more consulting support on activity sustainability models and exit strategies for the primary partner that received the funds is needed. Discuss with each partner what it would take to facilitate these for them. If possible, help them connect with other appropriate parties working on such issues. Focus on detailed content as well as on goal attainment. Ideas for the future will also emerge.

#### 5.1.3 Impact and Social Performance Management

The Programme should be prepared to support Impact and Social Performance Management work, especially as it relates to interested partners' work plans. This could take the shape of more active information sharing on the various tools available and their plans' pros and cons.

For instance, the SPI work of Cerise could be expanded. There may be an interest by a large enough number of MFIs to warrant the construction of a Progress out of Poverty Index (PPI)

Scorecard for one or two countries, or to pilot test the PPI scorecards that were recently developed for Kenya, Nigeria and Malawi.

In MFI annual reports the need for profiling the population they serve is discussed. A profiling tool could be very useful in this work, and inform the depth of outreach for the whole component of the programme. It should be made clear, however, that the focus will be on setting up user-friendly tools and systems contributing to social performance monitoring and/or impact assessment, rather than planning to collect results or findings at the end of the EU/ACP Programme.

#### 5.1.4 Information Dissemination and Sharing

Take a proactive approach in improving information dissemination and information. The learning event should not be viewed as the dissemination tool but rather as one step in a longer and deeper process of learning from this Programme.

Create more systematic channels for sharing at different levels—among grantees (thematically and country-based), with other Programme components, and globally. Establish clear outputs expected from the dissemination. Be ready to present interesting case studies at conferences and workshops. Every three months (or more frequently to those with regular Internet access), send to all members a note on the key highlights of the Programme. Structure information sharing sessions with the closest EU programme, (BizClim, for example, on the base of the pyramid topic). As will be discussed later, this can have additional benefits in terms of allowing for more time spent by the AIDCO Task Manager on the EU/ACP Programme.

Some topics for sharing can include how to deal with governance, how to improve scale, how to decrease portfolio at risk. Likewise, Horus and others are interested in mobile banking. Sharing experience to date with the work done by Opportunity International, and findings from CGAP, could be very interesting.

A lot of information is readily available publicly about such topics now. However, when an easy channel of communications is open in the context of a programme such as this, it allows for thorough one-to-one discussions, which can be much more fruitful and can focus on more operational issues. It should be attempted, at the very least.

Make the fact of ‘belonging’ to the Programme a big value added: for example, inform grantees in before others of future CGAP policy fora and upcoming events, and share results of events with them as soon as they are available. Create a greater sense of membership to the Programme.

Pursue close follow-up with donors (including UNCDF and IADB) involved with the supply-side component to draw useful lessons on collaboration at all stages of a project cycle with other donors.

### 5.1.5 Ratings

Encourage rating companies to accelerate the preparation of a strategy on how to break even on the ACP market. This encouragement can be done through the African Microfinance Transparency forum and collaboration with ADA, CGAP and EIB. Thanks to the Programme, it can also be done by continuing to provide input to the design phase. The EU/ACP Programme can ensure that the ACP is the focus of the re-thinking. Since the closure of the Rating Fund, work has been conducted on developing variations of the tools that were available. It is clear that well-developed and transparent diagnostic tools would be very useful for donors, MFIs and investors. Criteria will be adapted for first and second ratings, and social and mini ratings will be more prevalent.

## 5.2 Institutional-related issues

### 5.2.1 EC Microfinance Strategy Discussion

Since this Programme has become a core part of the EC's strategy in support of microfinance, it is recommended a discussion happen right away about the level of the EC's future commitment to and involvement with the various partners. The discussion would inform partners about continuing to build expertise and to pursue supporting microfinance in a sound manner.

This discussion and preparation should be organised in coordination with AIDCO C4, E2 and shared with DG Dev and the ACP Secretariat as a strategic matter. Make the steps and work plan as specific and as time bound as possible. Include activities such as training and dissemination workshops on a general calendar.

### 5.2.2 Staff Members

Obtain clarity on the expected involvement of the Programme Coordinator as seconded from CGAP and prepare for the possibility of continuing either with or without her involvement. This is a critical factor since the Programme has relied so much on her contribution. This point is further discussed in future programming.

In the remaining Programme time, adjust roles and responsibilities among the MF focal point, the AIDCO Task Manager and the Programme Coordinator. The fact that the AIDCO Task Manager is relatively new in overseeing this specific programme is an opportunity, in that reviewing roles and responsibilities is done more easily with fresh thinking and new people. While the AIDCO Task Manager will continue to be very active in reviewing procedures and connecting with the various EU bodies, it would be very good if she could increasingly take on more content issues as well, under the guidance of the Programme Coordinator, with a twinning process.

Build on the perceived momentum that there is a consensus about the role that the EU should be playing in MF, and that donor agencies are also supportive. This momentum is a good time to discuss 'burning issues'. With the microfinance letter of the EC going out to all Delegations, the practical follow up of such a microfinance vision needs to be articulated. In this sense, it is

not sustainable in the long run to rely on a seconded person for a programme such as this that is seen as a flagship.

### 5.2.3 Payment Schedules

Introduce payment schedules with delegations and headquarters and communicate it to the various grantees so that there is no surprise with grantees and they can plan accordingly.

### 5.2.4 Relationship with EIB

Establish a fruitful conversation between the new Technical Assistance (TA) facility of EIB and this Programme. Ensure that criteria for selection and scope of each TA facility (EU/ACP Programme and EIB) are clear and distinct and/or complementary as the case may be. On the core investment side of EIB, do not force a linkage but recognize that a combined package of equity and TA can be optimal for some institutions. It is important to continue good and systematic coordination among both partners.

In the context of capacity building as a tool to facilitate access to finance for the recipient institutions, implicit linkage to the EIB is useful, and should be further developed.

## 6 Recommendations beyond this programme

### 6.1 Create an EU/ACP Microfinance Successor Programme

A successor programme would be both useful and desirable to further the general aim of improved effectiveness of microfinance actors in ACP countries—ultimately to ensure the inclusion of more poor households into the financial system and the economy. Indeed there are still huge capacity building needs in the ACP countries, especially in Africa.

Based on intermediate results, the Programme is broad and has the benefit of working at a variety of levels, with a variety of instruments and actors. It is useful in cost-effectively supporting regional initiatives (such as Greenfields and existing institutions) while allowing space for innovation. It spans an incredible number of countries, which has both created momentum and led to enhanced coordination with global bodies such as CGAP. While there has been no systematic linkage to financial instruments as a result of the Programme, such linkages appear to have been facilitated (though more systematic linkages may be premature at this stage).

By its pilot nature, the Programme was designed with the intent to roll out some of its components. If it were not followed by another programme, this would likely be perceived as a failure of the Programme, leading to confusion in-house on microfinance best practices and the role of the EU.

### 6.2 Continue Focus in ACP Initially

There is always need for donor-funding in microfinance in various parts of the world as well as gaps in delivery of products and services. Therefore, the question on what to focus depends to a great extent on EC capacity for these types of programmes and the strategic priority given to other regions. Assuming a relatively small staff in charge of coordination in the next 3 to 5 years, and given how much capacity building is still needed in the ACP region, it may be more practical to focus first on the same region of the world. Replication to other regions could be considered in the course of evaluating a successor programme to this one and for another programming cycle beyond the next one.

### 6.3 Incorporating Partner Ideas In Development Of New Initiatives

The successor programme will benefit by the incorporation of partners' ideas into the design for projects (be it through parallel or joint co-financing, or another call for proposals). There are a number of other suggestions discussed below that have come out of discussions with bilateral

donors, been provided by partners, or are from gaps in current programming and the consultant's own experience with the subject. These ideas will all need to be tested further against such factors as whether there is:

- Adequate demand in each country to determine the usefulness of such initiatives/projects to the MF sector in one or several countries of the ACP region;
- EC expertise or comparative advantage;
- A need for donors to get involved in this area versus sufficient interest by private sector;
- Sufficient coordination among donors and sufficient volume to ensure scale;
- Optimal impact for the EU;
- Availability of instruments to respond to the demand: complementarity with TA initiatives of EIB and country budgets lines for microfinance under the EU.

Some of the suggestions that a successor programme could consider, work at the micro, meso- and macro- levels. They include:

### 6.3.1 Expanding Greenfields into Rural Areas

Greenfield institutions of a certain scale in urban and peri-urban areas do not go into rural areas without some amount of underwriting for their initial expansion. In addition to helping further the goal of increased outreach to more remote areas, this approach can further South-South learning and exchange. UNCDF is launching a fund that will work with partners such as BRAC and Equity bank in Laos. It may be interesting to tap into this experiment.

### 6.3.2 Developing Sub-regional Capacity Building Facilities for Middle Management

This support could be contingent upon coordination with institutions such as CAPAF and MFMI. Capacity building in Africa is especially important because of the continued lack of institutions on the ground with appropriate staff available. Middle management is critical to the success of the institutions. However, in many African contexts, middle management is very expensive to train. This is even more true in oil or post-conflict countries.

Creating one or several sub-regional training centres in Central Africa for technical and management mid-level staff would be very useful. This facility could be subcontracted to a professional microfinance outfit (through professional tender) where MFIs would make requests as needed. The ultimate result would be a huge cost saving in travel expenses to other training centres, and increased outreach to a greater pool of potential staff.

The courses offered would be technical but also centred around understanding what responsible banking means in practice, how to manage staff, how to communicate with client groups, how to develop products in a responsible manner. This initiative could be viewed in coordination with DFID's upcoming "bridging the skills gap" announced last month by the British Prime Minister to see if efforts can be combined, or if they are complementary.

### 6.3.3 Supporting Capacity Building Policy Work with Trusted Partners with Expertise

Providing fellowships to supervisors from very remote areas to attend the Boulder program had a large impact on the capacity building of supervisory bodies. These supervisors add great value to current efforts. In addition to fellowships, this support could include funding courses, supporting the development of training courses or their translation into local languages. Some of the experience of CAPAF working on training design and delivery could be used. This type of work cannot be expected from commercial partners. This would be a way for policy and grassroots work to meet in an effort to increase relevance in the field. This would be especially effective if conducted with trusted partners with expertise in policy work.

### 6.3.4 Investing in Consumer Protection

A successor programme could protect consumers by preventing extortion or misleading marketing. Part of the work would be to raise awareness with regulatory authorities so that they take actions against such behaviours. But part of it is also supporting the work of organisations in disseminating accessible product information (e.g., ensuring that products are clear, in large prints, etc.). Donor workshops can send a clear message to the media about the importance of consumer protection. The EU could take on some of the role of funding activities related to consumer protection, as it has done through AMFIU. But following on the model of the current Programme, EU support could be on a large scale and encourage different approaches.

### 6.3.5 Tailoring the Information Systems Fund and Rating Fund

At the level of the MFIs, an Information systems fund and a revised, tailored Rating Fund (or fund for diagnosis and assessments) are useful instruments. Given that some African countries are still post-conflict or in the middle of recurring conflicts, work on post-conflict microfinance could be continued, mostly through dissemination of existing literature, through training courses in the various centres created, and workshops sharing lessons learned.

### 6.3.6 Profiling depositors

The current programme has brought to light the need to better understand depositors. Microsave-types of market research on this issue could be encouraged and pursued (by grantees or in the context of a cooperative effort).

### 6.3.7 Co-funding Credit Bureaus and Rolling out National ID Systems

Co-funding donor initiatives with credit bureaus or helping countries roll out national ID systems for citizens of the country (as work is on going on payment systems) would be critical to a broader level analysis in terms of microfinance as part of broader financial sector development. The absence of credit bureaus in many markets creates both inefficiencies and risk of poor-lending behaviour. There is ample global data to support the thesis that lack of access to credit history and indebtedness both increases credit cost and limits access to credit.

Credit bureaus would improve risk assessment and facilitate the application of the “bad banker” clause in case of insolvency. This would consequently limit, at the source, the risk of such behaviour. IFC has been a lead in this area. The EC could support its work and thereby increase the impact and visibility of such activities.

#### 6.3.8 Training Loan Officers

The shortage of qualified staff, both at the loan officer and management levels, remains the most serious constraint on the expansion of microfinance programs in ACP countries, especially in Africa. A broad and open-ended training programme should be designed to help train large numbers of staff employed by microfinance institutions across ACP countries. The existing models developed by CGAP and ProCredit Group should be employed as benchmarks in the design of new training programs.

#### 6.3.9 The Shape of a Successor Programme

The EU/ACP Programme has included a combination of various instruments—some being demand-driven and others originating from donor design. This mix has been quite successful. Other factors contributed to the success of the Programme and should help shape a successor programme.

#### 6.3.10 Launching Another Call for Proposals

The inherent value of calls for proposals is that they are demand-driven and that all the work invested in researching a specific market and finding the most suitable response to its needs has already been completed by the time the proposal is written. Therefore, it is encouraged to have another call for proposals, but only if there is enough of a staffing or sub-contractual basis for appropriate monitoring. Allocating 30% to 50% of an EC administrative officer’s time to the processing of the call for proposals (correspondence trail, checking completeness of application, etc.) during a period of 6 months would have greatly alleviated the entire process for the current Programme.

Criteria for the call could be developed as soon as a funding envelope is determined. Consider giving greater weight to those of the current grantees that can have much greater impact through a continuation of their work and that have been consistently on track with their performance.

The EC’s current use of a concept paper as a way to pre-select grantees is a welcome modification which a potential successor programme should follow. Additionally, as CGAP’s Pink book suggests: “Conduct due diligence to ensure financial service providers have sufficient institutional capacity and commitment before engaging in product development; ...” In some cases organisations are better at preparing proposals than implementing. Given that due diligence in the course of the selection is not acceptable procedurally, then at the very least some visits to the various sites should be organized within the first 3 to 6 months of the programme start to immediately correct any projections when needed. This could be combined

with setting a learning agenda from the start through a microfinance specialist/learning facilitator.

#### 6.3.11 Cooperating with Other Donors

There is great value in enhancing relations with other donors for future work. Some of the donors interviewed (KfW and DFID) have already designed initiatives that will welcome more support. GTZ is part of the ‘Making Finance Work for Africa’ Forum, which is a way to ensure that each donor focuses on their comparative advantage. Other donors and the African Development Bank should also be approached in the context of this future programme to determine what they are doing and how the EU could best harmonize its actions.

While donor driven, these initiatives can be a welcome complement to the demand-side and focus on sub-regional activities. This approach is particularly relevant if little internal manpower is made available for this new programme. The EU/ACP can opt to be a ‘silent partner’ in certain areas, as long as it has made a careful strategic decision as to what to co-fund.

Selecting the right partner for each activity requires expertise. As was the case earlier on, there is little planning of such projects in the Caribbean and Pacific. Providing further support to the two start-up initiatives there may therefore be more useful, given the time and funding investment to-date and the fact that these initiatives are just starting, rather than force new ideas at this stage.

#### 6.3.12 Cooperating with the EIB

In case of a successor programme to the EU/ACP funded by the 10<sup>th</sup> EDF, it would be important to pursue the facilitation of linkages between the EIB and this programme, not only with a continuum from TA to finance, but also among various TA components, focusing on each one’s comparative advantage.

### 6.4 Implementing the Future Programme

Because the objective of the mid-term review was not to question the role of the EU in microfinance, but rather to evaluate the programme to-date and its effectiveness, EU considerations (strategy, capacity) are taken into account as means to further a programmatic end.

#### 6.4.1 Financial Resources

The Programme, by nature of being a pilot, was made of many small components. If a successor programme is designed, it seems only logical that it would be scaled up and made longer. Therefore a minimum of Euros 15 million for 5 years is under consideration. This amount should include the CGAP contribution.

As was discussed in this evaluation report, the EC has derived many benefits from its membership to CGAP. The EC has drawn on CGAP expertise for the implementation of the Programme, on policy, technology and transparency issues, and through its full-time person dedicated to the agency. Beyond this Programme, the EC benefits through input on core aid management documents, has received microfinance training for its staff and has received grants for the Boulder microfinance training programme. Country Level Aid Effectiveness Reviews completed by CGAP are of benefit to the EC at large. While this is not the complete list of benefits, suffice it to say that the benefits seem to amply justify the memberships, and is very important to the industry given that it comes from one of the largest grant donors for microfinance.

With the appropriate staffing and a careful selection of good areas of intervention, there are ways to go far beyond this figure of Euros 15 million up to Euros 50 million. Ideally, the programme would span a longer timeframe than 5 years (7 to 8) especially with the inclusion of calls for proposals, and would be for a minimum of Euros 3 million per year. Programmes under the EDF have cycles of five years, but perhaps it would be possible to get an extension, bearing in mind that derogations to the rule of N+3 may be necessary for components other than the call for proposals. This aspect would need to be balanced against what is possible and the topics of interest (determining whether there may be too many changes in the industry during such time span so as to allow for a commitment at (N+3)). The budget allocated for communication and dissemination should be increased and made a specific component of the programme (including support to conferences and follow up technical assistance).

#### 6.4.2 Human Resources

It is important to differentiate between the technical skills/expertise required to manage the Programme (what the coordinator has been doing successfully in the course of the current Programme) and the need to supervise any microfinance programme. A minimum of two positions are required.

Programme Supervision: The EC needs to hire an expert with strong microfinance expertise who can supervise and guide the development of any new microfinance intervention. Ensuring quality control and direction to a successor EU/ACP Microfinance Programme and other national or regional microfinance interventions requires a sufficiently skilled person at the EC to provide oversight.

A proposal<sup>8</sup> has been put forward and already discussed regarding the creation of a Helpdesk. As designed, the Helpdesk is to be a unit fully dedicated to microfinance, whose purpose is to ‘strengthen the capacity of EC operational staff to select or design and monitor implementation of microfinance programmes...’ and ‘improve knowledge management on microfinance...’. A helpdesk will channel questions from all microfinance programmes, provide advice and support to task managers, and mainstream good practice microfinance. It will also facilitate the replication of the EU/ACP Programme in other areas of the world in the near future.

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<sup>8</sup> Draft Proposal for EC Microfinance HelpDesk, November 2007, EU/ACP Programme Coordinator.

This proposal, as an issue of great importance, must be discussed further and agreed upon. The proposal suggests 2 to 3 full time professionals, however, the Helpdesk could be created with one full time person as a starting point.

The Helpdesk would be best housed in Europaid's Directorate E because of its focus on quality support for the implementation of EC aid. It fits best with the unit E2 that deals with private sector development issues.

As it is assumed here that CGAP will no longer be providing such tight guidance in programme implementation through a coordinator, then it is recommended to have CGAP leading a technical committee (subset of the Steering Committee), which would provide more detailed support on specific issues faced.

Programme Management and Coordination: Provided there is strong supervision and quality control in place as described above, there are two options to conduct actual programme management and coordination: by a microfinance expert based at AIDCO or subcontracting to a PMU.

Programme management and coordination by an AIDCO microfinance expert is the preferred option. It allows the EC to internalise microfinance expertise, and ensure synergies and learning among EC-funded interventions. This model also reduces the layers of bureaucracy and is more cost efficient than a PMU.

In the meantime, until this person is identified, the Programme Coordinator could gradually train the AIDCO Task Manager in taking some of the coordinator's responsibilities and adding on some training. This should happen as soon as possible so that by the time of programme closure, the Task Manager is fully at ease with the issues at hand.

In case the first and preferred option of an in-house microfinance expert to coordinate a successor programme cannot be accomplished and a PMU would be hired, it is strongly recommended that only a carefully pre-selected group of companies based on very specific and pre-determined criteria to manage the component be invited.

Support from the current Programme Coordinator in making a pre-selection can be sought. The supervision and quality control function mentioned above will have to play an important role in the selection and monitoring of the PMUs work. The microfinance expert/Helpdesk should build up a strong working relationship in order to maximise synergies and the extraction of lessons learned. At the same time, the company will have to work closely with staff of the C directorate for the implementation of the project.

### 6.4.3 Regional versus all-ACP approach

One point of discussion seems to be the intention to move from intra-ACP to a more regional approach. There would be four African regional points along with one for each of the Caribbean and Pacific areas, rather than an all-ACP function for coordination.

Though sub-regional microfinance projects may be developed, given the interests and large budgets for private sector development following the EPA negotiations, it is important at this stage to have a centralised all-ACP programme and sufficient microfinance expertise at the head office to guide and supervise the different projects. In the short run, the EC or regional organisations do not have sufficiently skilled staff to manage and supervise regional microfinance interventions—or at least not in all regions. In the long run, and with good expertise in place at the centre, the capacity of these regional offices could be built up to ensure good programmes and effective interventions.

A set of regional projects may not be as conducive to global learning and will limit the possibility to contribute to global or cross-regional demand-driven technical assistance facilities or funds. But an all-ACP Programme has the ability to cross-fertilise among initiatives funded in different parts of the ACP by stimulating exchange among grantees and can increase visibility of EU/ACP actions in microfinance when pulled together in a programme (e.g. Web site, representation at international fora etc.).

Dissemination to ACP Constituents: It is recommended to have an ACP Secretariat person who would spend a minimum of 30% of his/her time on this programme and focus essentially on communication and dissemination, among its constituents and at the level of each country.

Administrative Assistant: It is strongly recommended to obtain the support of an administrative assistant (at least for 30 to 50% of his/her time) for the processing of a potential Call for Proposals so as to alleviate the work for the AIDCO Task Manager and have her focus more on content issues.

# Annex 1 List Of Documents Reviewed (non-exhaustive)

**Project documents:**

Financing Agreements, Rider, Trust Fund CGAP and cover letter, contracts

**General:**

Quarterly reports, Annual Steering Committee minutes and reporting, Web site

**Capacity building:**

Applications for call for proposals, quarterly reports and correspondence with 11 grantees, Evaluation committee minutes and preparatory documents on selection, other proposals,

**Rating fund:**

Peer review, IADB evaluation, final evaluation, quarterly reports

**CGAP:**

Strategy for CGAP phases III and IV, mid-term evaluation Phase III, annual reports, annexes to annual reports on ACP, presentations to Steering Committee

**Financial information:**

Overview commitments and disbursements

**EC approach to Microfinance:**

Document outlining the EC's approach to Microfinance, Peer review letter

**Other evaluations:**

AMFIU, Africap, Capaf

**Trip report:**

MIFED

**ACP Investment Facility:**

Summary of activities in microfinance and operational outlook

**Other documents:**

Proposal for a Helpdesk

Practical guide to contract procedures for EC external actions

DFID and Financial Exclusion: Fact sheet

Partnership Forum: Making Finance Work for Africa



## Annex 2 List Of Individuals Interviewed By Type Of Organisation

<b>EC</b>	<b>Policy makers</b>	<u>Horus/Advans</u>
<u>DG AIDCO</u>	Marie Marthe Lebughe	Guillaume Debaig
Huda-Sara Bakhet		
David Domes	<b>Donors</b>	<u>LFS/Access Bank</u>
Jan Ten-Bloemendal	John Tucker (UNCDF)	Martin Spahr
Abdelaziz Cherradi (email)	Martin Hagen (kfw)	
Bizclim :Mhamed Cherif	Anu Bajaj (DFID)	<u>KDA:</u>
	Karen Losse (GTZ)	Emma Kimani
<u>DG Development</u>	Gabriela Braun(GTZ)	
Amadou Traore		Kimanthi Mutua
	<b>Grantees</b>	members of FSA in Nunguni
<u>ACP Secretariat</u>	<u>AMFIU</u>	
Solomon Kuria	David Baguma	<u>Aquadev:</u>
Mr Viwanou	Zainab Asimwe	Felix Vanderschrit
Mr Nyabenda	Drollah N/ Ssebagala	
	Solomon J.Kagaba	<u>Urwego:</u>
<u>European Investment Bank</u>		Faustin K. Zihiga
Cyrille Arnould	<u>Triodos/ Smartrac</u>	
Edvardas Bumsteinas	Frank Streppel (email)	
	Aaf Grasveld	
<u>EU/ACP Programme</u>	Eric Naivash (email)	
Antonique Koning		
	<u>Opportunity International:</u>	
<u>Delegations</u>	Sally Vicaria	
Odoardo Como	Deborah Foy	
Jane Kiringai	Frank Gamble	
Veronique Lorenzo	Nick Walden	
Delphin Randriamihariso	Flora Kaheru (MIA)	
Angelique Bitahaninkindi	Alex Kakuru (Faulu Uganda)	
Khadidjtou Tall		
Jeroen Willems	<u>SIDI</u>	
Efstratios Pegidis	Julie Szantyr	
	Christian Schmitz	
<b>CGAP</b>	Anne-Sophie Bougouin	
Eric Duflos	Michael Fanta (MAIN)	
Xavier Reille	Monique Andrianasolo	
Alexia Latortue	(SIPEM Madagascar)	
Jennifer Isern	Issa Salifou Tahirou (Taanadi)	

**ADA**

Emma Paul  
Axel de Ville

**Microfinanza**

Fabio Malanchini  
Caterina Giordano

Niger)

Maman Yahouza (Kokari

Niger)

Aboudou Nassirou (Wages

Togo)

Pancrattius Turyatunga and

Bwerere Fulgence (Omipa)

Babali Ba (BMS)

## Annex 3 Sample Questionnaire for grantees

*Please note that a specific and different questionnaire was prepared for each type of respondent (AIDCO, DG Dev, Secretariat, donors, etc.). They are available upon request.*

Introduction: introduce review. Explain purpose and confidentiality of discussion (no quoting).

Questions to grantees:

1. Can you tell me very briefly where you stand with your project and results to-date? What are some successes and challenges? How is this different from your plans?
2. Can you describe where you are now and what you did exactly with the EU/ACP funds?
3. What was your overall experience with the Call for Proposals? Was it your first time with the EC doing such call? What went well, not so well?
4. Do you have recommendations regarding the call for proposals and why?
5. What is your connection with the EC on this? What is the type of oversight you receive from the programme coordinator? How would you qualify it?
6. What is the type of oversight you receive from the EC Delegation? How would you qualify it?
7. If this funding had not been secured through this programme, how and where would you have paid for this capacity building?
8. What has been the linkage with EIB if any? Can you explain it to me?
9. So far, to what extent can you attribute some of the performance of your work to having received these funds?
10. What do you know of other EU/ACP programme components? Of the work of other grantees? Is this programme also a platform for sharing?
11. In a few words, what was the best about this grant and what has been the most challenging about it?
12. What are your plans? What would you like to see happen in the next two years? Beyond?

Thank you!



## Annex 4 Expanding The Range Of Providers Of Financial Services And Professionalizing

### *Some examples*

**KFS** is professionalizing its **Financial Services Associations**; this is primarily done through the EU funding that is going to the **full time trainer** who works with each association on issues such as delinquency management or financial analysis. The managers of the FSAs are seconded by KFS to provide guidance to the FSA staff and board. While this is taking place on a daily basis, the trainer is both designing and conducting trainings to reinforce it. In so **strengthening the organisations and monitoring their performance**, the need for further product development comes into shape and is pursued.

**SIDI** has worked with **12 MFIs** on various forms of product development and MIS analysis that have improved the MFI's professionalism. This has taken the shape of direct technical assistance by a consultant or attendance to some training classes. By working also through **two universities** in Africa, SIDI promotes the local university while strengthening its MFI partners. SIDI has mentioned that it is very difficult to get funding for **existing institutions and programs**, which made the EU funding especially attractive to them.

**Triodos** is introducing a new way of thinking through performance through its **social reporting** and the **GRI**: in the process of doing so, through international and local consultants, organisations are faced with high level decisions on how they can introduce such concepts not only as a vision for the institution, but also in their everyday activities. Triodos has also introduced its various risk tools in a number of organisations, including Women's World Banking Ghana and Pride.

Through its work with the **MicroInsurance Agency**, Opportunity International is not only offering an opportunity for people to obtain life and other types of insurance, it is also creating a precedent on the market by negotiating with large insurance companies and **working with the MFIs on designing insurance products in line with people's needs**. The Microinsurance agency works not only with MFIs such as Faulu Uganda, but also with CARE and Habitat for Humanity.

**OI** is actively involved in designing and introducing **savings** products. In this context, organisations enhance their own capacity and become more professionalized. OI is also experimenting with **mobile banking**, introducing **credit scoring and accreditation** to some of its partners.

The purpose of the transparency work conducted by **AMFIU** is to present such practices to its members, and to have them internalize them. The **consumer code of conduct** is an important step in this direction.

## Annex 5 Impact Goals For Each Grantee And Achievement To-Date- Eu/Acp Programme<sup>9</sup>

Grantee name	Tool planned for impact measurement (inherent or additional)	Expected levels and types of impact	Achieved to-date
AMFIU	Inherent to project: consumer education programme and PMT Additional: survey co-funded by DFID-FSDU (baseline and post implementation) o customers	Consumers (through translation of documents), greater information, better services MFIs: increased competitiveness Government, investors and donors: more enticed to work in this sector.	Perceived greater choices by clients. MFIs: increased awareness to customer protection. Not yet on PMT
Aquadev	Etimos: social performance evaluation focusing on social and political strategies, staff policies, social capital, ability to respond to needs.	MFIs (INCREASED EFFICIENCY, GREATER GEO COVERAGE AND MORE PRODUCTS) CUSTOMER SATISFACTION	Greater geo coverage through TA, start of reduced transaction costs through technology. Not yet started product diversification of social performance evaluation.
Horus	Stemming from proxy indicators	Increased breadth of outreach Percentage of clientele that did not have access to another financial institution in past 5 years. Client retention rate as a proxy for satisfaction.	Delay and timeframe render this question premature. Profile of clientele was drawn for future reference.

<sup>9</sup> See also rating and CGAP evaluation reports for more detailed impact information on these programme components.

Grantee name	Tool planned for impact measurement (inherent or additional)	Expected levels and types of impact	Achieved to-date
KDA (K-Rep)	Past participation in 3-year Ford Foundation funded Imp-Act project leveraged for the project. Quantitative approach: baseline questionnaire. Qualitative approach: Focus Group Discussions, Participatory Rapid Appraisal exercises. Semi-structured interviews.	FSA level: PAR, liquidity, better loan tracking systems. Shareholder level: wider range of financial services; reduction in cost of capital, increased returns on invt. Household level: diversity of income, mitigating financial risks, nutrition.	Proxy data : areas of operations have 80% of low income HH. Number of HH reached. Impact study (story telling) of one KSA in Kitui.
Grantee name	Tool planned for impact measurement (inherent or additional)	Expected levels and types of impact	Achieved to-date
LFS Madagascar	Through current ratios	Household level: breadth, depth of outreach, more choices. Industry wide: demonstration effect, and transformation (effect on regulatory authorities knowledge).	Segmentation of clientele profile shows majority are micro and very small enterprises; other ratios on track, but not yet on rural outreach.
MIFED	SPI Cerise tool conducted in June 07	Household targeting strategy and number of households.	Rural penetration, individual targeting through flexible services, diversity of products. Grade: 66/100. No data on total number of HH touched through project given system limitations .
OI	Inherent to ratios and regular operations (loan size and methodologies as proxies).	MFIs: increased knowledge and understanding of credit, savings and insurance. Within OI network: improved performance visibility, planning and risk management. Increased MFI access to more stable sources of funds (esp. deposits).  Clients: larger number served, in larger areas, wider range of products. Consumption smoothing; asset building; vulnerability reduction; reduced exposure to risks and enhanced ability to prepare for the	90% of loans through group lending with an average loan size from \$100. MIA Uganda: pioneer in having an insurance intermediary established to serve the poor.

Grantee name	Tool planned for impact measurement (inherent or additional)	Expected levels and types of impact	Achieved to-date
		future.	
Procredit	No specific tools. Monthly reporting for quantitative indicators and customer feedback every 6 months. Staff training every quarter.	MFI: Branch upgrade/expansion and ATM installation; Staff performance; Customer satisfaction	50% of all bank accounts in the DRC. Number of clients exceeding targets.
SIDI	SPM workshop organized as part of Action for adoption of tools and indicators for SPM.	MFIs: more services and demonstration effect. MUSO strengthened in other regions. Improved competence. Better follow up of SPM for excluded.	SPM tool with SIPEM. Others: as targeted on product diversification and rural outreach.
SMARTRAC	Social indicators embedded in methodology	MFIs: growth and outreach through greater efficiency and effectiveness Local service providers: enhanced capacity (more market oriented microfinance services market).	Number of MFIs integrating tools, including social performance reports.
Urwego	Inherent to savings product (viewed as a direct result).	Households: enable the poor to better sustain financial shocks by managing risk as well as protect them against potential losses as they accumulate savings.	Number of depositors below performance thresholds (not on rural depositors).



## Annex 6 Examples Of Grantee Targets Vs Achievements

Below are tables of targets and achievements of three different grantees—an MFI (Greenfield Madagascar) and a technical assistance provider (Triodos & Facet with SMARTRAC)

### Example of Greenfield Microfinance Institution: LFS Financial Systems Madagascar

	Number of active loans	Number of loan and savings products	Gross outstanding portfolio (Euros)	Value of current and term deposits (Euros)	Number of staff trained
12 month targets	540	2	240,000	12,000	24
24-month target	1,500	2	1,400,000	160,000	64
March 31, 2008 actuals	2,408	8	1,492,197	2,660,414	130

LFS is consistently over-performing on its targets. The very good results can be attributed to several factors:

- High demand for products: To this date, no other financial institution has been able to satisfy the demand. Current suppliers remain relatively small, or operate in rural areas (LFS is exclusively in urban areas) and offer different types of products. The biggest constraint faced by suppliers of financial services in Madagascar is capital for on-lending, where the market rate is very high (12 to 14%). This means that LFS was able to extent its offer faster than others;
- Human resources: Other MFIs are faced with issues of low competence of staff and poorly trained, leading to challenges faced with productivity and efficiency. In contrast, LFS has invested heavily from the onset in training;
- Service quality: LFS has a comparative advantage in that its conditions for loans and speed for obtaining a loan are more attractive to clients.

It is worth noting however that given the very high demand for financial services in the country, the targets were probably underestimated at the time of business planning.

**Example of a Regional Grantee: Smartrac: Triodos**

	Number of tools provided to MFIs	Number of sustainability monitoring structures	Number of risk management structures introduced management plans presented by partners	Number of MFIs that begin creating and providing social performance reports	Number of local consultants trained	Number of MFI partners that begin reporting to the MIX Market
<b>12-month target</b>	1	1	1	0	2	0
<b>24-month target</b>	4	3	5	2	4	5
<b>March 31, 2008 actuals</b>	11	1+1 half way	4+1 half way	1	5 and 2 half way	Preparatory steps

TriodosFacet has exceeded minimum performance thresholds for year 2 by the end of March 2008. Several factors come into play in this successful situation:

- Triodos has good knowledge of most of these MFIs, which results in taking the right steps towards strengthening their competencies in the area determined for the work;
- Generally speaking (there are a few exceptions such as SOMED), Triodos tends to work with high performing MFIs whose capital structure already allows for equity investment. This provides these MFIs with more possibilities for focusing on issues such as transparency, which themselves reinforce the good results;
- Triodos is very much demand-driven and ensures full buy-in from the MFI recipients prior to engaging with them. It also factors in the time needed to move in and imbed the processes within the institutions.